



PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.
(A Component Unit of the State of Delaware)
Clayton, Delaware

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
Year Ended June 30, 2005

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	3
AUDITED FINANCIAL STATEMENTS	
Government-Wide Financial Statements:	
Statement of Net Assets	5
Statement of Activities	6
Fund Financial Statements:	
Balance Sheet – Governmental Fund	7
Reconciliation of the Balance Sheet of Governmental Fund to the Statement of Net Assets	8
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Fund	9
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Fund to the Statement of Activities	10
Notes to Financial Statements	11
REQUIRED SUPPLEMENTAL INFORMATION	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	17
Notes to the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	18
OTHER INFORMATION	
Condensed Government-Wide Financial Statements	19
Schedule of Findings and Questioned Costs	21



STATE OF DELAWARE
OFFICE OF AUDITOR OF ACCOUNTS

R. THOMAS WAGNER, JR., CGFM, CFE
AUDITOR OF ACCOUNTS

PHONE: (302) 739-4241
FAX: (302) 739-2723

INDEPENDENT AUDITORS' REPORT

SCHOOL BOARD MEMBERS
PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.
Clayton, Delaware

We have audited the accompanying financial statements of the governmental activities and the general fund of Providence Creek Academy Charter School, Inc. (the "School") (a component unit of the State of Delaware) as of and for the year ended June 30, 2005 which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the School as of June 30, 2005 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 21, 2005 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. The School has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The budgetary comparison information on page 17 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management

regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The condensed government-wide financial statements are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The condensed government-wide financial statements have been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

OFFICE OF AUDITOR OF ACCOUNTS

R. Thomas Wagner, Jr., CGFM, ~~CPE~~
Auditor of Accounts

Dover, Delaware
September 21, 2005



STATE OF DELAWARE
OFFICE OF AUDITOR OF ACCOUNTS

R. THOMAS WAGNER, JR., CGFM, CFE
AUDITOR OF ACCOUNTS

PHONE: (302) 739-4241
FAX: (302) 739-2723

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

SCHOOL BOARD MEMBERS
PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.
Clayton, Delaware

We have audited the financial statements of the governmental activities and general fund of Providence Creek Academy Charter School, Inc. (the "School") as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements, and have issued our report thereon dated September 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as 2005-01 and 2005-02.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

We also noted certain additional matters that we reported to management of the School in a separate letter dated September 21, 2005.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the School's management, School Board Members, Department of Education, Office of the Governor, Office of Controller General, Office of Attorney General, Office of Management and Budget, and Secretary of Finance and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.

OFFICE OF AUDITOR OF ACCOUNTS

R. Thomas Wagner, Jr., CGFM, CFE
Auditor of Accounts

Dover, Delaware
September 21, 2005

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.STATEMENT OF NET ASSETS
JUNE 30, 2005

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
CURRENT ASSETS	
Cash and Cash Equivalents	\$ 223,152
Receivables	
Delaware School Districts	2,134
Governments - Federal Through State	14,007
Other	3,020
Prepaid Items	34,403
TOTAL CURRENT ASSETS	<u>276,716</u>
NONCURRENT ASSETS	
Capital Assets, Net of Depreciation	242,917
Lease Deposits	86,198
TOTAL NONCURRENT ASSETS	<u>329,115</u>
TOTAL ASSETS	<u>605,831</u>
<u>LIABILITIES</u>	
CURRENT LIABILITIES	
Accounts Payable	58,003
Accrued Salaries and Related Costs	331,964
Deferred Revenue	2,945
Arbitration Settlement	27,500
TOTAL CURRENT LIABILITIES	<u>420,412</u>
NONCURRENT LIABILITIES	
Arbitration Settlement	247,500
TOTAL LIABILITIES	<u>667,912</u>
<u>NET ASSETS (DEFICIT)</u>	
Invested in Capital Assets (Net of Related Debt)	(32,083)
Unrestricted (Deficit)	(29,998)
TOTAL NET ASSETS (DEFICIT)	<u>\$ (62,081)</u>

See accompanying notes to basic financial statements.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

					NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS
	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	<u>TOTAL GOVERNMENTAL ACTIVITIES</u>
GOVERNMENTAL ACTIVITIES					
Instructional Services	\$ 2,667,997	\$ -	\$ 188,157	\$ -	\$ (2,479,840)
Supporting Services:					
Operation and Maintenance of Facilities	1,253,039	-	-	-	(1,253,039)
Transportation	505,615	-	-	-	(505,615)
Before/After Care and Summer Camp	16,001	32,542	-	-	16,541
School Lunch Services	202,607	130,063	63,989	-	(8,555)
TOTAL CHARTER SCHOOL	<u>\$ 4,645,259</u>	<u>\$ 162,605</u>	<u>\$ 252,146</u>	<u>\$ -</u>	<u>(4,230,508)</u>
GENERAL REVENUES					
State Aid not Restricted to Specific Purposes					3,515,114
Charges to School Districts					632,283
Earnings on Cash and Cash Equivalents					7,026
Miscellaneous Revenues					186,893
TOTAL GENERAL REVENUES					<u>4,341,316</u>
CHANGE IN NET ASSETS					110,808
NET ASSETS (DEFICIT) AT BEGINNING OF YEAR					<u>(172,889)</u>
NET ASSETS (DEFICIT) AT END OF YEAR					<u>\$ (62,081)</u>

See accompanying notes to basic financial statements.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2005

	<u>GENERAL FUND</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 223,152
Receivables	
Delaware School Districts	2,134
Governments - Federal Through State	14,007
Other	3,020
Prepaid Items	<u>34,403</u>
TOTAL ASSETS	<u>\$ 276,716</u>
<u>LIABILITIES</u>	
Accounts Payable	\$ 58,003
Accrued Salaries and Related Costs	331,964
Deferred Revenue	<u>2,945</u>
TOTAL LIABILITIES	<u>392,912</u>
<u>FUND BALANCE (DEFICIT)</u>	
Reserved for Encumbrances	10,987
Unreserved (Deficit)	<u>(127,183)</u>
TOTAL FUND BALANCES (DEFICIT)	<u>(116,196)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 276,716</u>

See accompanying notes to basic financial statements.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUND TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE
STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:

Total Fund Balances (Deficit) – Governmental Fund	\$ (116,196)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The total cost of capital assets is \$386,997 and the related accumulated depreciation is \$144,080.	242,917
Lease deposits are not available to pay for current period expenditures and therefore, are deferred in the funds.	86,198
Long-term debt liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	<u>(275,000)</u>
TOTAL NET ASSETS (DEFICIT) – GOVERNMENTAL ACTIVITIES	<u>\$ (62,081)</u>

See accompanying notes to basic financial statements.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2005

	<u>GENERAL FUND</u>
REVENUES	
State Support	\$ 3,515,114
Charges to School Districts	632,283
Federal Support	181,911
School Lunch Services – Charges for Services	130,063
School Lunch Services – Grants	63,989
Miscellaneous Revenues	186,893
Before/After Care and Summer Camp	32,542
Earnings on Cash and Cash Equivalents	7,026
Local Support	6,246
TOTAL REVENUES	<u>4,756,067</u>
EXPENDITURES	
Current:	
Instructional Services	2,600,472
Supporting Services:	
Operation and Maintenance of Facilities	1,253,039
Transportation	505,615
Before/After Care and Summer Camp	16,001
School Lunch Services	202,607
TOTAL EXPENDITURES	<u>4,577,734</u>
NET CHANGE IN FUND BALANCE	178,333
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR	<u>(294,529)</u>
FUND BALANCE (DEFICIT) AT END OF YEAR	<u>\$ (116,196)</u>

See accompanying notes to basic financial statements.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE
STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:

Net Change in Fund Balances – Governmental Fund	\$ 178,333
---	------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$15,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation Expense	<u>(67,525)</u>
----------------------	-----------------

CHANGE IN NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>\$ 110,808</u>
--	-------------------

See accompanying notes to basic financial statements.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Providence Creek Academy Charter School, Inc. (the "School") have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the School are described below.

Reporting Entity

The School was founded in 2002 and was established to provide students with an education focused on linkages among academics, technology, and careers. The School is considered to be a component unit of the State of Delaware. A component unit, although a legally separate entity, is, in substance, part of the State of Delaware's operations. The School has no component units for which it is considered to be financially accountable.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all activities of the School.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to students who purchase, use, or directly benefit from goods and services provided and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Grants and other revenues not properly included among program revenues are reported as general revenues.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Charges to school districts are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

The School reports only one fund which is the general fund (a governmental fund type).

Encumbrances

Encumbrance accounting is employed in the governmental funds. Encumbrances (e.g., purchase orders and contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. Encumbrances at June 30, 2005 were \$10,987.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and Cash Equivalents

Except for the petty cash and Fine Arts Department cash accounts, cash and cash equivalents of the School are controlled by the State Treasurer's Office in Dover, Delaware. The petty cash and Fine Arts Department cash accounts are controlled by the School.

Prepaid Items

Certain payments to vendors reflect costs applicable to future period and are recorded as prepaid items in both government-wide and fund financial statements.

Receivables

All receivables are considered fully collectible by management. No allowance for bad debt is deemed necessary.

Capital Assets

Capital assets, which include furniture and equipment, are reported in the government-wide financial statements. The School defines capital assets as assets with an initial individual cost of more than \$15,000 (the threshold also used by the State of Delaware) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend lives of the assets are not capitalized.

Furniture and equipment of the School are depreciated using the straight-line method over the estimated lives of the assets, which range from five to ten years.

Compensated Absences

Vacation and sick pay plus related payroll taxes is accrued when incurred in the government-wide financial statements and the governmental funds. The liability for these amounts is reported as accrued as a result of employees eligibility for retirement. At June 30, 2005, no employees were eligible for retirement.

Vacation

Twelve month employees can accumulate up to one half of the vacation days earned that year. Any excess days are dropped as of July 1st of each year. Employees are paid for one half of the accumulated unused vacation upon retirement at the current rate of pay.

Sick Leave

Sick leave allowances are as follows: 10 days for 10-month employees, 11 days for 11-month employees, and 12 days for 12-month employees. Any unused sick days shall be accumulated to the employee's credit without limit. Compensation for accumulated sick days is paid out at one half of the accumulated sick days up to 90 days upon retirement at the current rate of pay.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose. No such reservations existed at June 30, 2005.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B – CASH AND CASH EQUIVALENTS

At June 30, 2005, the School has a cash and cash equivalent balance of \$223,152. Of that amount, \$220,453 is part of an investment pool controlled by the personnel of the State Treasurer's Office in Dover, Delaware and all investment decisions are made by the State Treasurer's Office. These funds are considered to be highly liquid and available for immediate use and, thus, are recorded as cash equivalents in these financial statements.

The funds held by the State of Delaware investment pool, an internal investment pool, are specifically identified for the School, but the credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the State. The State reports that its investment securities are stated at quoted market prices, except that investment securities with a remaining maturity at time of purchase of one year or less are stated at cost or amortized cost.

The petty cash and Fine Arts Department accounts are in the custody of School officials. The book and bank balances of these funds was \$2,699 and \$2,934, respectively. The bank balance of cash deposits is insured by the Federal Deposit Insurance Corporation (FDIC) and, therefore, there is no custodial credit risk for these cash deposits.

NOTE C – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 follows:

	<u>BEGINNING BALANCES</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCES</u>
Capital Assets Being Depreciated:				
Furniture and Equipment	\$ 386,997	\$ -	\$ -	\$ 386,997
Less Accumulated Depreciation:				
Furniture and Equipment	<u>76,555</u>	<u>67,525</u>	<u>-</u>	<u>144,080</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 310,442</u>	<u>\$ (67,525)</u>	<u>\$ -</u>	<u>\$ 242,917</u>

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE C – CAPITAL ASSETS – CONTINUED

Depreciation expense is \$67,525 for the year ended June 30, 2005 and is included in instructional services in the statement of activities.

NOTE D – ARBITRATION SETTLEMENT

The School settled a dispute with its former management company over fees and costs associated with the start-up of the School. The School will pay \$275,000 plus 4% interest over ten years for equipment, computers, furnishings, etc. provided to the School. Annual debt service requirements to maturity are as follows:

<u>YEAR ENDING JUNE 30,</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2006	\$ 27,500	\$ 11,000	\$ 38,500
2007	27,500	9,900	37,400
2008	27,500	8,800	36,300
2009	27,500	7,700	35,200
2010	27,500	6,600	34,100
2011-2015	137,500	16,500	154,000
TOTAL	<u>\$ 275,000</u>	<u>\$ 60,500</u>	<u>\$ 335,500</u>

The settlement calls for an additional payment of \$225,000 which will be satisfied by a related party.

NOTE E – DONATED SPACE AND SERVICES

The School leases space and services under an operating lease from a related party. During fiscal year 2005, the related party donated space and services in the amount of \$136,229.

NOTE F – RELATED PARTY TRANSACTIONS

The School leases its facilities and certain other expenses from a related party under a lease beginning September 1, 2002 for a five-year term with an option to renew for an additional five-year term. If the renewal option is taken, rent will increase by the lesser of actual increases in pass through charges or 5% of prior year lease.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE F – RELATED PARTY TRANSACTIONS – CONTINUED

For the year ended June 30, 2005, rent expense was \$654,696 of which \$88,585 was donated. General administrative expenses were \$120,000 of which \$20,000 was donated. Custodial expenses were \$27,644 all of which was donated. Amendment 16 of the lease agreement provides rent relief of \$96,293 to be used in fiscal year 2006, therefore making the annual lease amount \$766,047. The School has prepaid rent and deposits in connection with this lease. At June 30, 2005, the approximate minimum future rental payments under this lease are as follows:

YEAR ENDING JUNE 30,	AMOUNT
2006	\$ 766,047
2007	1,341,897
TOTAL	\$ 2,107,944

The School has contracted its student transportation from another related party under a contract beginning September, 2002 for a three year term with two one year options to renew. The School paid \$492,000 for these services for the year ended June 30, 2005. The future annual contract amount is \$492,000.

NOTE G – PENSION PLAN

School employees are considered State employees and are covered under the State's pension program. The State contributed 13.25% for fiscal 2005 of the State's share of the employees' salary. The School contributed the same percentages on the local share of the salary. The employees contribute 3% of salary in excess of \$6,000 per share up to social security maximum and 3% for any salary above social security maximum. Total pension cost of \$198,846 (State share), \$12,012 (local share) and \$5,009 (covered by Federal grant funds) is included in the financial statements. Pension costs accrued at June 30, 2005 were approximately \$32,700.

Certain significant plan provisions follow:

- Early Retirement:
 - a. 15 Years Service - Age 55
 - b. 25 Years Service - Any Age
- Service Retirement:
 - a. 15 Years Service - Age 60
 - b. 30 Years Service - Any Age
 - c. 5 Years Service - Age 62
- Disability Retirement:
 - a. 5 Years Service and Proof of Disability
- Vested Pension:
 - a. An employee can vest pension rights after five years of service.

The State's pension program is a defined benefit plan. More information on this plan is available in the State of Delaware Public Employee Retirement System (DPERS) Comprehensive Annual Financial Report. This report may be obtained by writing DPERS at Suite 1, McArdle Building, 860 Silver Lake Boulevard, Dover, Delaware 19904 or calling 1-800-722-7300.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE H – COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The School does not anticipate losses from these transactions.

Grants

The School receives financial assistance from federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability of the School. The School's administration believes such disallowance, if any, would be immaterial.

NOTE I – LEASING ARRANGEMENTS

The School entered into three operating leases for textbooks, library books and musical instruments. The leases expire during fiscal year 2006. Lease expense for the fiscal year ended June 30, 2005 was approximately \$93,500. Approximate minimum future payments for fiscal year ended June 30, 2006 is \$54,570.

As described in Note F, the School is committed to certain leasing arrangements with related parties.

NOTE J – RISK MANAGEMENT

The School has purchased commercial insurance policies for various risks of loss related to torts; theft, damage, or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenses for the School. Insurance settlements have not exceeded insurance coverage in either of the past two years. There were no significant reductions in coverage compared to the prior year.

NOTE K – RECEIVABLE FROM DELAWARE SCHOOL DISTRICTS

Capital School District	<u>\$ 2,134</u>
-------------------------	-----------------

NOTE L – DEFICIT NET ASSETS

At June 30, 2005, the governmental activities had a deficit net asset balance invested in capital assets (net of related debt) balance and a deficit unrestricted net assets balance of \$32,083 and \$29,998, respectively. The School expects to recover through ongoing operations.

NOTE M – DEFICIT FUND EQUITY

The general fund had a deficit fund balance of \$116,196 at June 30, 2005, which the School expects to recover through ongoing operations.

REQUIRED SUPPLEMENTAL INFORMATION

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2005

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS BUDGETARY BASIS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
REVENUES				
State Support	\$ 3,388,283	\$ 3,409,250	\$ 3,494,941	\$ 85,691
Charges to School Districts	518,619	654,306	634,748	(19,558)
School Lunch Services	269,500	209,000	186,557	(22,443)
Federal Support	-	302,404	178,931	(123,473)
Miscellaneous Revenues	-	-	50,664	50,664
Before & After Care Summer Camp	-	-	32,467	32,467
Earnings on Cash and Cash Equivalents	-	-	7,026	7,026
Local Support	-	-	6,246	6,246
TOTAL REVENUES	<u>4,176,402</u>	<u>4,574,960</u>	<u>4,727,809</u>	<u>16,620</u>
EXPENDITURES				
Current:				
Advertising	1,058	7,834	14,480	(6,646)
Before & After Care Summer Camp	-	-	16,001	(16,001)
Communications	14,160	14,160	16,720	(2,560)
Contracted Services	451,331	453,880	391,749	62,131
Employment Costs	607,850	607,850	601,081	6,769
Insurance	15,000	15,000	17,428	(2,428)
Land/Building/Facilities	524,000	524,000	557,945	(33,945)
Miscellaneous	73,745	74,277	36,922	37,355
Public Utility Services	47,000	47,000	73,705	(26,705)
Repairs and Maintenance	16,315	16,315	16,181	134
Salaries	1,560,107	1,565,107	1,729,277	(164,170)
Supplies and Materials	161,415	169,472	219,400	(49,928)
School Lunch Services	100,000	100,000	202,607	(102,607)
Transportation - Buses	492,000	493,034	505,477	(12,443)
Travel	-	-	1,356	(1,356)
TOTAL EXPENDITURES	<u>4,063,981</u>	<u>4,087,929</u>	<u>4,400,329</u>	<u>(312,400)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 112,421</u>	<u>\$ 487,031</u>	191,251	<u>\$ (295,780)</u>
Fund Balance at Beginning of Year			<u>31,901</u>	
Fund Balance at End of Year			<u>\$ 223,152</u>	

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

NOTES TO THE SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
YEAR ENDED JUNE 30, 2005

The School's budget is prepared on the cash basis of accounting. The amount reported as "net change in fund balance" on the budgetary basis derives from the cash basis of accounting. Revenues are reported when received and expenditures are reported when paid. This amount differs from the "net change in fund balance" reported in the Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Fund" on page 9.

That statement is prepared on the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The following reconciles the net change in fund balance per the budgetary basis to the net change in fund balance per the modified accrual basis.

NET CHANGE IN FUND BALANCE, BUDGETARY BASIS	\$	191,251
Net Increase in Receivables		2,302
Net Decrease in Prepaid Assets		(42,111)
Net Decrease in Liabilities		<u>26,891</u>
NET CHANGE IN FUND BALANCE, MODIFIED ACCRUAL BASIS	\$	<u>178,333</u>

OTHER INFORMATION

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.
 CONDENSED GOVERNMENT-WIDE FINANCIAL STATEMENTS
 JUNE 30, 2005

The primary government requires a classification of receipts which differs from accounting principles generally accepted in the United States of America at the School level.

The following are condensed government-wide financial statements as of and for the year ended June 30, 2005:

STATEMENT OF NET ASSETS (In Thousands)

CURRENT ASSETS

Cash and Cash Equivalents	\$ 223
Receivable from Primary Government	16
Other Receivable	3
Prepaid Items	35
TOTAL CURRENT ASSETS	<u>\$ 277</u>

NONCURRENT ASSETS

Capital Assets, Net	243
Lease Deposits	86
TOTAL NONCURRENT ASSETS	<u>329</u>
TOTAL ASSETS	<u>606</u>

CURRENT LIABILITIES

Accounts Payable	58
Accrued Liabilities	332
Deferred Revenue	3
Debt	27
TOTAL CURRENT LIABILITIES	<u>420</u>

NONCURRENT LIABILITIES

Arbitration Settlement	248
TOTAL LIABILITIES	<u>668</u>

NET ASSETS

Invested in Capital Assets, Net of Related Debt	(32)
Unrestricted (Deficit)	(30)
TOTAL NET ASSETS (DEFICIT)	<u>\$ (62)</u>

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.
 CONDENSED GOVERNMENT-WIDE FINANCIAL STATEMENTS
 JUNE 30, 2005

STATEMENT OF ACTIVITIES (In Thousands)

EXPENSES		\$ 4,645
PROGRAM REVENUES		
Charges for Services	163	
Operating Grants and Contributions – Primary Government	<u>252</u>	
TOTAL PROGRAM REVENUES		<u>415</u>
NET EXPENSE		(4,230)
GENERAL REVENUES		
Payments from Primary Government	\$ 4,147	
Earnings on Cash and Cash Equivalents	7	
Miscellaneous	<u>187</u>	
TOTAL GENERAL REVENUES		<u>4,341</u>
CHANGE IN NET ASSETS		111
NET ASSETS (DEFICIT) AT BEGINNING OF YEAR		<u>(173)</u>
NET ASSETS (DEFICIT) AT END OF YEAR		<u>\$ (62)</u>

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Providence Creek Academy Charter School, Inc.
2. Two reportable conditions were identified during the audit of the basic financial statements of Providence Creek Academy Charter School, Inc.
3. No instances of noncompliance material to the financial statements of Providence Creek Academy Charter School, Inc. were disclosed during the audit.

FINDINGS – COMPLIANCE REPORTING

None.

FINDINGS – FINANCIAL REPORTING

Finding 2005-01

The State of Delaware *Budget and Accounting Manual* states, "...the work of employees is subdivided, wherever possible, so that no single employee performs a complete cycle of operations." An adequate system of internal controls consists of policies and procedures, which would provide for a segregation of duties between key accounting functions, which helps to reduce the risk of error or inappropriate actions.

Providence Creek Academy Charter School, Inc.'s Business Manager prepares manual documents and enters and approves the documents in DFMS. The Business Manager also completes the monthly reconciliations, which are not reviewed by management.

Employees with PHRST access have the ability to access and revise their payroll data.

As a result, there is an increase in the risk of misappropriation of assets due to the lack of segregation of duties.

RECOMMENDATION:

The School Director or Financial Employee provide the second level of approval to documents in DFMS and/or review the monthly reconciliations of DFMS activity and sign the reconciliations to denote timely review and approval.

The School implement PHRST sign-on controls at the School level that limit employees' ability to access and revise their payroll data.

MANAGEMENT'S RESPONSE:

Since there are limited resources for employing staff, one individual currently performs all of the financial transactions. The audit recommendation for the School Director or Financial Employee on a daily basis to provide the second level of approval for all financial documents in DFMS would not result in an efficient system for the timely processing of documents. The School's response to the recommendation will be to change its procedures so that the monthly reconciliations of DFMS activity will be performed by the Financial Employee who will also sign and date the form. The School's monthly financial report, which is reported by object code, will be used to monitor payroll and other employment cost expenditures.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

FINDINGS – FINANCIAL REPORTING - CONTINUED

Finding 2005-02

Providence Creek Academy has insufficient policies and procedures regarding the recording, processing, summarizing, and reporting of cash, payroll, and related liabilities. In addition, the School does not have written policies and procedures for originating, authorizing, preparing, and approving input transactions

According to the State of Delaware *Budget and Accounting Manual*, Chapter I, "Department or agency heads are responsible for establishing and maintaining an effective system of internal control." Additionally, the Manual states, "Internal control provides management with reasonable assurance that its policies and procedures are implemented and consistently followed to ensure efficient and effective organizational operation." Further, the Manual states, "A well designed system of controls must include written policies and procedures to ensure that each control objective is met".

By not maintaining sufficient policies and procedures for financial transactions, the School has no method of ensuring efficient and effective organizational operation.

RECOMMENDATION:

Providence Creek Academy develop and implement sufficient written policies and procedures governing the receipt, custody, processing, recording and reporting of cash, payroll, and related liabilities. Providence Creek Academy develop and implement sufficient written policies and procedures for originating, authorizing, preparing, and approving input transactions. The policies and procedures should incorporate information such as:

- Sufficient segregation of duties or mitigating controls
- Specific job functions for each employee, including preparation and review
- Retainage of support documentation

MANAGEMENT'S RESPONSE:

Providence Creek Academy plans to work with other charter schools to develop and implement sufficient written policies and procedures governing the receipt, custody, processing, recording and reporting of cash, payroll and related liabilities.

STATUS OF PRIOR AUDIT FINDINGS

There are no prior audit findings.



STATE OF DELAWARE

OFFICE OF AUDITOR OF ACCOUNTS

R. THOMAS WAGNER, JR., CGFM, CFE
AUDITOR OF ACCOUNTS

PHONE: (302) 739-4241
FAX: (302) 739-2723

September 21, 2005

To the Members of the Board and President and Mr. Charles Taylor, Director
Providence Creek Academy Charter School, Inc.
Clayton, Delaware

In planning and performing our audit of the financial statements of Providence Creek Academy Charter School, Inc. (the "School") for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the School's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the other information section of the June 30, 2005 financial statements as 2005-01 and 2005-02.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions. In addition, because of inherent limitations in internal control, errors or fraud may occur and not be detected by such controls.

During our audit, we became aware of several other matters that are opportunities for strengthening internal control and operating efficiency. These matters are described in Appendix A, "Other Comments and Recommendations".

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in our audit of the June 30, 2005 financial statements, and this report does not affect our report on those financial statements dated September 21, 2005. We have not considered the internal control since the date of our report.

This report and the attached comments and recommendations in Appendix A are intended solely for the information and use of the School's management, School Board Members, Department of Education, Office of the Governor, Office of Controller General, Office of Attorney General, Office of Management and Budget, and Secretary of Finance and is not to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(c), this report is public record and its distribution is not limited.

Sincerely,

OFFICE OF AUDITOR OF ACCOUNTS

R. Thomas Wagner, Jr., CGFM, CFE
Auditor of Accounts

401 FEDERAL STREET • TOWNSEND BUILDING • SUITE ONE • DOVER, DE 19901

VISIT OUR WEBSITE TO VIEW, DOWNLOAD, OR PRINT AUDIT REPORTS AND OTHER INFORMATION

<http://www.state.de.us/auditor>

H:\FY05-Quality Control Review\05_Providence Creek Academy_AOA\K\W063052_pca mlp.DOC

OTHER COMMENTS AND RECOMMENDATIONS

Finding: Vendor checks returned to the School

Based on our review of thirty (30) payment vouchers, ten (10) were identified as having the check returned to the School for mailing. The supporting documentation for the payment vouchers did not contain a copy of the vendor check or the date the check was mailed and/or delivered to the payee. We also noted that all checks were returned to the same individual responsible for preparation/data entry and electronic authorization of the payment voucher.

As outlined in the State of Delaware *Budget and Accounting Manual*, Chapter I, "Department or agency heads are responsible for establishing and maintaining an effective system of internal control." An effective system of internal controls includes:

- Ensuring that all transactions are clearly documented, and the documentation is available for examination.
- Dividing the responsibility for a transaction or activity among different parties so that no one employee has complete control over the processing of transactions.

Whenever vendor checks are not mailed directly to vendors, the risk of misappropriation of funds is increased.

Recommendation:

Providence Creek Academy implement policies and procedures for transactions in which checks are returned to the School for mailing/distribution. The School should maintain documentation supporting the disbursement of the check. One method to track returned checks would be to establish a manual tracking spreadsheet. This spreadsheet should list the vendor, check number, check date, and either the date the check was mailed or the signature of the person to whom the check was delivered and the date of delivery. Finally, the person that received the returned check directly from the Department of Finance should initial the line.

Due to limited staff of the School, it would be difficult to properly segregate duties related to returned checks. The School's director should review the tracking spreadsheet on a quarterly basis; his signature will denote his review and approval.

Management Response:

Since the same individual is responsible for preparation/data entry, etc., as well as mailing checks to the vendors, we will make a serious effort to significantly reduce the number of checks which are returned to the school for mailing. Whenever vendor checks are returned to the school for mailing to vendors in the future, a copy of each of the checks will be attached to the payment vouchers. The date that the check was mailed to the vendor will be noted on the payment voucher. If an individual picks up the check, the individual will sign the payment voucher and also note the date that the check was received. The initials of the Providence Creek Academy employee that received the check from the Department of Finance will also appear on the payment voucher.

Finding: Funds Receipt Form

The Funds Receipt Slip forms for Providence Creek Academy were not consistently signed by the Business Manager and the dates of deposits were not consistently documented on the forms. This results in noncompliance with the School's Cash Deposit Policy and lack of controls over cash receipts.

The School's Cash Deposit Policy states that, "Monies collected will be counted by the collector on the appropriate form (funds receipt slip). This money will be counted by the receiver of the funds and signed for. A copy will accompany all transactions."

Recommendation:

Providence Creek Academy's Business Manager document deposit dates on all Funds Receipt Slip forms and sign the forms.

OTHER COMMENTS AND RECOMMENDATIONS

Management Response:

In the future, Providence Creek Academy's Business Manager will enter the date of the receipt as well as the date of deposit for all receipts and will sign the Funds Receipt Form.

Finding: Reconciliations

Reconciliations of manual records to DFMS reports are prepared by School staff; however, the reconciliations are not signed or dated by the Business Manager or the financial consultant.

According to the State of Delaware *Budget and Accounting Manual*, Chapter II, "The following specific control objectives are widely accepted as elements of good control and should be used by management and financial manager:

- Validation - ensuring that recorded transactions represent real transactions
- Authorization - ensuring that all transactions are approved by management."

Lack of signatures and dates results in failure to provide evidence of timely validation and authorization.

Recommendation:

Providence Creek Academy Business Manager sign and date reconciliations to signify timely preparation. The School's financial consultant or Director sign and date reconciliations to signify timely review and approval.

Management Response:

In the future, the School's financial consultant will perform monthly reconciliation and sign the reconciliation. This option will provide more efficient processing for all financial documents than the procedures of having another School employee provide another level of approval for all daily transactions.

Finding: Fine Arts Account

Providence Creek Academy's Director of Fine Arts controls the Fine Arts checking account. The Director prepares and signs checks, makes deposits, and performs reconciliations.

School policy states that two signatures are required for checks; however, sometimes only one signature is present.

The State of Delaware *Budget and Accounting Manual*, Chapter II states, "...the work of employees is subdivided, wherever possible, so that no single employee performs a complete cycle of operations." Segregation of duties is an internal control intended to prevent or decrease the occurrence of innocent errors or intentional fraud. This is done by ensuring that no single individual has control over all phases of a transaction.

There is an increase in the risk of misappropriation of assets due to the lack of segregation of duties.

Recommendation:

Providence Creek Academy segregate duties related to the Fine Arts account. The School's Business Manager reconcile activity of the Fine Arts checking accounts and sign and date denoting timely preparation. The School's Financial Employee or Managing Director review and sign reconciliations denoting timely review and approval.

Management Response:

The following changes will be made to the Fine Arts account. All future checks from this account will require two signatures. All future bank reconciliations will be performed by another employee of

OTHER COMMENTS AND RECOMMENDATIONS

Providence Creek Academy. All reconciliations will also be signed and dated by the individual completing the reconciliation.

Finding: Capital asset threshold

The School's capital asset policy defines capital assets as assets with an initial individual cost of more than \$15,000 and an estimated useful life in excess of one year. The threshold is high in relation to the School's financial position. This could result in the misstatement of the School's financial statements.

GASB's Guide to Implementation of GASB 34 and Related Pronouncements states, "Authoritative pronouncements do not address the manner in which a capitalization policy should be established and applied. However, capitalization policies adopted by a government should find an appropriate balance between ensuring that all material capital assets, collectively, are capitalized and minimizing the costs of record keeping for capital assets. It may be appropriate for a government to establish a capitalization policy that would require capitalization of certain types of assets whose individual acquisition costs are less than the threshold for an individual asset. Computers, classroom furniture, and library books are assets that may be immaterial for capitalization on an individual basis, yet might be considered material collectively."

Recommendation:

Providence Creek Academy reduce its fixed asset threshold to a maximum of \$5,000 (in accordance with OMB's Circular A-122's requirements for assets purchased with federal funds), but preferably \$2,500.

Management Response:

The School's current policy is not in conflict with any State or Federal guidelines, but there is concern that this threshold may be too high for the School. Most of our major purchases for computers, etc., would not be reflected on our official inventory records, based on our current policy. This issue will be reviewed by the Providence Creek Academy's administration in the near future and any recommendation for a change in our current policy would require approval by our Board of Directors.

Finding: Sick leave

Providence Creek Academy's sick leave policy permits employees to earn and accumulate sick leave at the beginning of each year. Leave records of two employees were noted to have negative sick leave balances resulting in an overpayment to the two employees for unearned sick time.

Recommendation:

Sick leave balances should not be reduced below zero; rather, the employees' pay should be reduced for the time period the unearned leave was taken. The negative sick leave balances should be recovered from the employees' sick leave earned at July 1, 2005 or reimbursement of the overpayments should be obtained.

Management Response:

The sick leave records of one employee have been received and corrections have been made to reflect professional development absences which should not have been deducted from the employee's sick leave. Therefore, the employee's sick leave balance was not negative at the end of the fiscal year. The other employee with a negative balance is no longer employed by Providence Creek Academy. Providence Creek Academy will contact the employee to review the sick records and request reimbursement if the negative balance is correct.

Finding: Bi-Annual Financial Report

The Department of Education, School Nutrition Programs requires the School to submit a cash flow report ("Bi-Annual Financial Report for School Lunch, Breakfast, and Snack Program") by January 31 and July 31 each year. The reports contained several errors including beginning cash did not match the prior report's ending cash and amounts received did not match DFMS amounts.

OTHER COMMENTS AND RECOMMENDATIONS

Recommendation:

Providence Creek Academy's Cafeteria Manager correctly prepare the Bi-Annual Reports and maintain sufficient support for numbers reported.

Management Response:

In the future, Providence Creek Academy's Cafeteria Manager will be held responsible for correctly preparing the Bi-Annual Reports and maintaining sufficient documentation for all figures. The administration of the School will review and provide training to the Cafeteria Manager to achieve this goal.

Finding: Computer Inventory Sheet

As outlined in the State of Delaware *Budget and Accounting Manual*, Chapter I, "Department or agency heads are responsible for establishing and maintaining an effective system of internal control." An effective system of internal controls includes ensuring that "all assets can be accounted for and safeguarded against waste, loss, unauthorized use and misappropriation."

Providence Creek Academy's Computer Inventory Sheet was incomplete. Seven teachers signed the computer inventory sheet, however corresponding computers assigned to them were not listed. Seven computers listed did not specify the serial number.

Recommendation:

Providence Creek Academy maintain complete inventory records by listing all computers followed by the recipient's signature.

Management Response:

The administration of Providence Creek Academy will review its current procedures, forms and training in this area to improve its control of all computers as well as the fixed asset threshold in a previous finding and present a recommendation to the Board of Directors.